The Changing Structure of Agriculture

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Industry Consolidation Trends in the US

- Increasing capitalization and scaling requirements for production and value-added agriculture for
  - operating costs,
  - R&D,
  - new product launches;
  - global manufacturing and distribution in a diversity of markets
- Integration of markets from farm to fork and to new, industrial end-uses:
  - Regional
  - National
  - International
- Increase in regulation
- Survival rates in global economic recession
Competitiveness and New Technologies

- Infrastructure and Operations
  - Cost-effective operations
  - Inventorying and logistics management
- Market volatilities:
  - Risk minimization strategies
  - Hedging
- Climate change
  - Land
  - Water
  - GHG
- Food safety
  - Product traceability
  - Certification
  - Shipping and handling
Regulation and Consolidation: New Economic Imperatives

Regulations to Protect Public Interest

- Large companies
- Medium companies
- Small companies

Food Safety

- Large companies
- Medium companies
- Small companies

Protect Environment

- Large companies
- Medium companies
- Small companies

Food Security

- Large companies
- Medium companies
- Small companies
• 2008 run-up in wheat prices in wheat futures contract: manipulation by a food cartel?

  – Commodity index traders held between 35% and 50% of all outstanding wheat futures contracts on the Chicago exchange.
  – Tentative conclusion was that commodity index traders were one of the engines in the price run-up and subsequent sharp fall due to excessive redemptions forcing hedge funds to cancel out of their short positions.
• Impact: whose ox was gored?
  – Food industry (They were buying for inventories, not to hedge long or short exposures)
  – Merchandisers
  – Consumers: run-up in prices into 2009 when the economic recession was in full swing

• Food Safety: shared problem and shared solution
  – Incidents: Tainted peanut butter scandal in 2009; China’s contaminated pet food in 2007; The Jalapeno Incident in 2006; etc.
  – Response: Industry initiatives and new food safety legislation
Regulation: the Cost Hurdles?

- **Food safety**—requiring harmonized standards, quality controls, certification/traceability capabilities, all of which raise manufacturing costs.
  - Industry threat: real threat to brand, loss of market share, liability.
  - Costs: estimates vary but the range is around 30% of total manufacturing cost for HAACP/ISO/ and private industry standard compliance.

- **Environmental regulations/compliance with Clean Air Act**
  - Paradox: Regulations to protect consumer, environment but also raises cost ratios and creates higher entry hurdles for start-ups and small to medium size companies.
  - EPA mandatory reporting.

### Cost to comply with the reporting requirements

<table>
<thead>
<tr>
<th>Total cost (million)- estimated</th>
<th>Number of facilities</th>
<th>Ave. cost per facility</th>
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<tbody>
<tr>
<td>1st year</td>
<td>2nd year</td>
<td>1st year 2nd year</td>
</tr>
<tr>
<td>$115</td>
<td>$72</td>
<td>$11,500 $7,200</td>
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<td>10,000</td>
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**Reinvestment of earnings ratios**

- **Food Safety**

**Environment**

- **Food Security**

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Consumer/End-user Preferences

- Building brand
- Distribution and Convenience
- Supplier services
Financial markets: 
New Commercial imperatives

- Exchange rate volatility

Index of real trade-weighted dollar exchange rate
-- total U.S. merchandise exports

- Liquidity
- Transparency
Score Card

- **R&D:** market entry remains fluid
- **Prices**
  - Disaggregated pricing more difficult with integrated, international consolidated operations
  - Competitive prices—depends on sector
  - Bias in profit margins in favor of downstream, integrated operations
- **Consumer Gains**
  - Differentiated product
  - Safer product
  - Reliable supply sourcing
- **Producer Gains/Losses**
  - **Losses**
    - Lower profit margins
    - Less concentration
    - Fewer risk minimization options
  - **Gains**
    - Greater access to consumers/end-users
    - Stakeholder participation—i.e., biofuels
    - Additional volumes through new market outlets
    - Opportunities for strategic alliances and cross alliances
Thank You!

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